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MEMORANDUM

ON THE

Financial Operations of the Three Years since Confederation.

In the Committee on Public Accounts last Session, there was some discussion as to the propriety of so remodelling our statement of Receipts and Expenditure, so as to distinguish the ordinary from the extraordinary. I then expressed an opinion, which I have seen no reason to alter, that any such distinction cannot properly be made a matter of account. There is a broad difference between Receipts and Expenditure, which are authorized by Parliament to belong to Capital, and those which appertain to Consolidated Fund, or in other words are applicable to, or chargeable against Income. But no rule can be laid down to distinguish between ordinary and extraordinary Receipts and Expenditure. In almost every year some extraordinary items will occur, and it depends altogether upon their magnitude whether it is worth while to take any notice of them at all. No one, for instance, would think of keeping a separate account of the gain or loss we may make in Premium Discount and Exchange in the minor movements which are every year taking place in Loans, Redemptions and Investments; but if we happen to contract a large loan these items may assume important dimensions; and who is to determine the limit before and after which they are to be dealt with differently. So also if a small debtor, like the Northern Railway, falls behind for a year or two in its interest, and then pays up its arrears, the case is distinguishable only in its magnitude from the similar occurrence with the Great Western. Or we may have an extraordinary expenditure of 30 to $40,000 for Emigration and Quarantine, if a sickly season should occur; or one of ten times the amount in consequence of a Fenian raid, or the decennial occurrence of the Census. None of these things can properly be said to belong to Capital, but which of them are of sufficient importance to be specially classed as extraordinary is a matter of discretion, on which hardly any two men would agree, and nothing ought to be left to discretion in book-keeping. Such items may very properly be made a matter of comment in the report of the Board of Audit, and no prudent Minister of Finance would leave them out of account, if of any magnitude, in basing his financial arrangements for one year on the experience of another. He might even be compelled to contract a temporary loan to cover a casual deficiency in the Revenues of Consolidated Fund to meet the charges against it, as he is authorized to do by 31 Vic. Cap. 4 Sec. 4; and such casual loans might very properly be kept distinct from the ordinary debt, and the redemption of them be made a charge against Consolidated Fund in more favorable years; but until Parliament has pronounced upon the subject, I do not see how any change can be made in the method of entering such transactions in the books. Everything, which has not been specially authorized to be considered Capital, must be credited or charged to Consolidated Fund, and the change in the balance of that Fund from year to year, will shew whether the income has been in excess, or has fallen short of, the charges against it. For these reasons I propose, unless I receive your instructions to the contrary, to bring out the statement of Receipts and Expenditure in the same form as in the last year's Public Accounts, shewing those of Consolidated Fund separate from those applicable to open accounts, but not taking upon myself to make any other distinction between ordinary and extraordinary items.

This difficulty is in a great measure removed, if we take several years together, as the extraordinary items in different years tend to counterbalance each other. I have, therefore, given three statements from which the financial progress of the country, since Confederation may be judged of, with a comparison between their results.

I. A statement shewing the excess of receipts of Consolidated Fund over the expenditure in each year. In this statement I have given the amounts as they stand in the Public Accounts, without taking into consideration whether some $40,000 charged against Public Works Capital in the first two years should not, perhaps, in accordance with the distinction drawn in the estimates of last year, have been more properly charged to Consolidated Fund; and I have made no change in the manner of dealing with the Premiums on the Intercolonial Loan, and the arrears of the Great Western interest, to which exception was taken last year. These were certainly extraordinary receipts, but if, upon that ground, some portions of them were deducted from the receipts of the year, the whole amount certainly should not be so deducted. If 1868 and 1869 have not credit given to them for all the arrears of the Great Western interest, they must at least have it for the amounts falling due in them, which even on our present reduced settlement would have been $221,458.72; and similarly they would be entitled to credit for the profit on a 35 years' loan accruing in the three years under consideration, which would be $31,284.87, leaving only $670,303.31 of these extraordinary receipts, respecting which there can be any doubt. Against this may be set extraordinary expenditure like that resulting from the Fenian raid last year, and the decennial Census now in progress. If the statement had embraced four years instead of three, the extraordinary items would probably have balanced each other.

It must, however, be borne in mind that the Consolidated Fund Expenditure embraces one item which is a reduction of the debt. We are pledged to expend a certain sum annually towards paying off the debt through the Sinking Fund, and that expenditure is, therefore, properly charged against Consolidated Fund. But it is really so much debt redeemed, and it must be added to the excess of Consolidated Fund Receipts in order to shew the amount of Income which, over and above the annual expenditure, has been available for purposes of Capital.

II. A detailed statement of all the items of which our debt consists, and of the available assets we have to meet it with, shewing the movement of each during each year. The difference between the increase of debt thus shewn, and the amount which we have expended during the period on Public Works, and other accounts which are authorized as capital expenditure, but which are not included in the statement as available assets, will indicate in another way the amount of expenditure authorized on account of capital, which has in fact been met out of current income.

There is another point in this statement which is worthy of remark—that whilst the net debt has been increased during the period in question by $2,431,930.32, the average rate of interest which it bears, which is the true test of its pressure upon our finances, has so much decreased, that the interest payable has barely been affected.

It is to be observed that the net debt and net interest payable on it, as given by me, are the debt as it actually stood on July 1st, and the net interest which would be payable annually on that amount. This interest will not exactly correspond with the interest actually paid either during the financial year preceding or succeeding July 1st, because some portions of the debt and investments have only been at that amount during a portion of each financial year. But in order to shew the actual operation, I append a statement shewing the actual expenditure and receipts for interest on debt and investments in the year 1868-9 as compared with the net interest as it stood July 1st, 1869.

III. The change in the balance of Consolidated Fund indicates the same expenditure for Capital purposes out of income.

It will be seen that the results of the three statements are not identical, and the second and third are perhaps the best test of the financial position of the country. In ordinary years there would be no noticeable difference between the three, though some trifling rectifications of accounts in previous years will from time to time occur, which will affect the correspondence between the statements based upon the change in the debt, and that founded on the cash transactions of the year. But in the three years under consideration, in consequence of the settlement with the Provinces, the differences are more important. The items which have affected the accounts forming the net debt, which have not passed through cash are the following:

Debt increased 1867-8 by credit to Indian Fund (P. A. '67 p.8)	$ 10,577 18		
Arrears to Seigneurs do	2,330 42	—$ 12,907 60	
Debt increased 1868-9 by credit Province of Canada (P.A. '67 p.12)	$310,866 85		
Indian Fund do	3,622 83		
Great Western do	42,265 30	—$356,754 98	
Debt increased 1869-70 by credit to New Brunswick	$ 10,580 17		
Quebec	474 75		
Banking Accounts	73 34	—$ 11,128 26	
			$380,790 84
Debt reduced 1867-8 by debiting Nova Scotia (P.A. '69 p.9)	$ 973 33		
Township Indemnity	547 03		
	1,520 36		
Debt reduced 1868-9 by debiting Township Indemnity	$ 623 45		
Banking Accounts	73 00	—$ 696 45	
Debt reduced 1869-70 by debiting New Brunswick	$ 791 07		
Banking Accounts	4,556 17	—$5,347 24	—$ 7,564 05
Balance			$373,226 79

So also in 1867-8 Consolidated Fund was credited with $52,681.81, an amount of expenditure on Public Works Capital charged to the Province, and which, therefore, did not affect Cash of the Dominion or any other debt account.

The comparison of the three methods of judging of the financial progress of the country will then stand thus:

I.

Excess of Consolidated Fund Receipts	$1,771,542 57
Sinking Fund	908,606 65
	$2,680,149 22
Not through Cash, as above	373,226 79
	$2,306,922 43

II.

Public Works, &c.,	$4,738,852 74
Increase of Debt	2,431,930 32
	$2,306,922 42

III.

Consolidated Fund, 1867	$6,556,803 04
1870	4,197,198 80
Decrease	$2,359,604 24
Public Works, as above	52,681 81
	$2,306,922 43

JOHN LANGTON.

December 3rd, 1870. *Auditor.*

STATEMENT of the Receipts and Expenditure of Consolidated Fund in 1867-8, 1868-9 and 1869-70.

Receipts, 1867-8	$ 13,737,470 72	
Expenditure	13,535,635 19	
Excess of Receipts		$ 201,835 53
Receipts, 1868-9	$ 14,485,139 57	
Expenditure	14,144,049 05	
Excess of Receipts		$ 341,090 52
Receipts 1869-70	$ 15,533,797 73	
Expenditure	14,305,181 21	
Excess of Receipts		$1,228,616 52
Total Excess of Receipts		$1,771,542 57
Sinking Fund, 1867-8	$ 355,266 66	
1868-9	426,805 66	
1869-70	126,533 33	—$ 908,606 65
Total surplus Income of Consolidated Fund exclusive of that applied in reduction of the debt		$ 2,680,149 22

II.

COMPARATIVE STATEMENT

Of the Debt of the Dominion, 1867, 1868, 1869 and 1870.

LIABILITIES.

	July 1st, 1867.	July 1st, 1868.	July 1st, 1869.	July 1st, 1870.
Payable in London.	$ cts.	$ cts.	$ cts.	$ cts.
Imperial Guaranteed Loan (old)....4 p. c.	681,333 34	681,333 34	.....	.....
Do Intercolonial....4 p. c.	.....	.....	7,300,000 00	7,300,000 00
Intercolonial Loan.....5 p. c.	.....	.....	2,433,333 34	2,433,333 34
Consolidated Canadian Loan Bonds...5 p. c.	27,784,461 92	27,082,201 92	26,899,127 06	26,375,473 74
Do Stock...5 p. c.	3,770,153 93	4,472,413 93	4,657,488 79	5,181,142 11
Canada Bonds (old).....5 p. c.	267,666 70	267,666 70	267,666 70	267,666 70
Do do .....6 p. c.	24,947,506 71	24,945,073 38	24,942,640 05	24,942,640 05
Nova Scotia Bonds.....6 p. c.	4,580,506 66	4,460,300 00	4,460,300 00	4,460,300 00
New Brunswick Bonds.....6 p. c.	5,037,486 66	4,886,620 00	4,886,620 00	4,886,620 00
Payable in Canada.				
Canada Bonds (old).....5 p. c.	192,925 01	192,925 01	192,925 01	192,925 01
Do do .....6 p c.	1,254,250 02	1,243,610 02	1,227,610 02	1,227,210 02
Do do .....7 p. c.	873,200 00	873,200 00	300 00	300 00
Nova Scotia.....6 p. c.	1,481,900 00	1,481,900 00	1,481,900 00	1,481,900 00
New Brunswick .....6 p. c.	196,900 00	196,900 00	196,900 00	196,900 00
Exchequer Bills.....	.....	.....	6,575,410 05	2,224,353 70
Bonds convertible into Stock.....6 p. c.	.....	600,000 00	578,000 00	576,000 00
Dominion Stock.....6 p. c.	.....	1,427,538 66	3,272,861 09	4,093,001 52
Savings Banks, Canada.....4 p. c.	.....	130,688 89	503,614 26	895,070 41
Do do .....5 p. c.	.....	73,900 00	353,200 00	648,900 00
Do Nova Scotia.....4 p. c.	644,687 02	670,287 18	658,734 93	770,579 85
Do New Brunswick.....5 p. c.	599,359 85	633,250 24	694,100 83	809,521 50
Do Savings Bank do .....6 p. c.	178,000 00	178,000 00	178,000 00	178,000 00
Nova Scotia Suspense Account.....	.....	.....	64,468 70	64,468 70
Indemnity to Seigneurs and Townships 6 p.c.	3,869,810 02	3,869,810 02	3,869,810 02	3,860,645 58
Notes, Canada.....	3,113,700 00	3,795,000 00	4,830,000 00	7,479,353 33
Do Nova Scotia.....	605,859 12	552,325 79	467,743 12	334,301 05
Total Funded Debt.....$	80,079,706 96	82,714,945 08	100,992,753 97	100,880,606 61
Trust Funds.....6 p. c.	1,178,410 58	1,178,410 58	1,178,410 58	1,178,410 58
Do .....5 p. c.	5,230,369 35	5,276,388 66	5,299,207 87	5,336,233 93
Miscellaneous	458,092 38	252,783 21	97,948 05	129,126 46
Provinces—Ontario and Quebec.....	358,822 01	2,151,192 13	4,010,802 64	5,748,774 69
Nova Scotia. .....5 p. c.	1,260,527 30	843,857 72	653,708 18	435,712 04
New Brunswick.....	953,943 61	504,628 60	.....	.....
Total Miscellaneous.....$	9,440,165 23	10,207,260 90	11,240,077 32	12,828,257 70
Banking Accounts.				
London Agents.....various...	1,226,548 53	1,372,873 87	49,080 91	215,570 75
Bank of Montreal.....do.....	2,249,416 67	2,500,000 00	.....	2,022,805 51
Miscellaneous	50,214 34	101,586 35	80,086 19	85,223 65
Total Banking Accounts.....$	3,526,179 54	3,974,460 22	129,167 10	2,323,599 91
Total Liabilities.....$	93,046,051 73	96,896,666 20	112,361,998 39	116,032,464 22

ASSETS.

	July 1st, 1867.	July 1st, 1868.	July 1st, 1869.	July 1st, 1870.
Investments.				
Consolidated Can. Loan Fund.....5 p. c	$ cts. 1,207,222 26	$ cts. 1,562,488 92	$ cts. 1,952,795 58	$ cts. 2,001,462 24
Intercolonial do .....5 p. c.	.....	.....	36,500 00	114,366 67
New Brunswick Bonds.....6 p. c.	83,706 66	83,706 66	83,706 66	83,706 66
Sterling Debentures.....6 p. c.	.....	.....	14,600 00	14,600 00
Northern Railway Bonds.....6 p. c.	243,333 33	243,333 33	243,333 33	243,333 33
Cobourg Bonds.....6 p. c.	21,210 47	21,210 47	21,210 47	21,210 47
Toronto Bonds.....6 p. c.	18,883 00	17,183 00	12,803 00	7,263 00
Montreal Turnpike.....6 p. c.	67,200 00	67,200 00	67,200 00	67,200 00
Con. Can. Loan Bonds.....5 p. c.	53,533 33	53,533 33	53,533 33	53,533 33
Montreal Harbour Bonds.....5 p. c.	211,266 68	211,266 68	211,266 68	211,266 68
Port Hope Bonds.....5 p. c.	23,587 77	23,587 77	23,587 77	23,587 77
Hamilton Coupons.....5 p. c.	22,248 89	19,345 85	16,781 35	16,781 35
India Bonds.....5 p. c.	681,333 34	681,333 34	681,333 34	681 333 34
Bonds for Savings Bank .....5 p. c.	.....	.....	.....	9,000 00
Do Intercolonial.....5 p. c.	.....	.....	234,000 00	157,106 66
Grand Trunk Postal Bonds variable.....	121,666 66	121,666 66	121,666 66	121,666 66
Do Preference Stock.....	121,739 66	121,739 66	121,739 66	121,739 66
Miscellaneous Con. Fund Investments.... ...	98,350 25	98,350 25	98,350 25	98,350 25
Great Western Bonds (variable to '69)..4 p. c	2,810,500 00	2,810,500 00	2,768,234 70	2,076,176 03
Intercolonial Construction acc't..... ..3½ p. c.	....	....	2,000,000 00	4,883,089 49
Exchequer Bills.....	.....	....	6,575,410 05	2,224,353 70
Total Investments..... .....$	5,785,782 30	6,136,445 92	15,338,052 83	13,231,127 29
Miscellaneous.				
Province of Canada Debt.....5 p. c.	10,045,533 63	10,782,660 07	10,489,769 30	10,504,914 47
New Brunswick Debt.....5 p. c.	.....	.....	319,822 77	569,541 89
Provincial Accounts.....	.....	940,699 44	3,842,165 67	5,959,662 32
Nova Scotia Suspense Account..	....	....	125,054 61	125,054 61
Miscellaneous	....	....	.....	21,258 29
Total Miscellaneous..... .	10,045,533 63	11,723,359 51	14,776,812 35	17,180,431 58
Banking Accounts.				
Cash.....	589,085 23	1,425,786 00	2,966,930 73	2,252,602 38
Issue Account and Specie reserve.....	757,140 00	938,440 00	1,899,000 00	2,883,436 67
Financial Agents.....	22,403 59	10,569 18	1,118,259 68	12,204 42
Bank of Montreal Silver Debentures.....	....	572,443 47	72,443 47	....
Silver Deposit Account.....	.....	.....	.....	1,277,818 49
Silver Charges Account.....	.....	.....	.....	58,724 05
Silver Coinage Account.....	....	.....	.....	657,826 25
Miscellaneous Banking Accounts.....	117,465 61	332,487 38	331,180 13	317,721 40
Total Banking Accounts.. . ...$	1,486,094 43	3,279,726 03	6,387,814 01	7,460,333 66
Total Assets..... ....$	17,317,410 36	21,139,531 46	36,502,679 19	37,871,892 53

COMPARATIVE STATEMENT

Of the Debt of the Dominion from July 1, 1867, to July 1, 1870, according to the rate of interest it bears.

LIABILITIES.	1867.	1868.	1869.	1870.
	$ cts.	$ cts.	$ cts.	$ cts.
Without interest	5,540,631 46	7,357,516 08	16,126,758 75	16,065,901 58
At varying rates	1,475,965 20	1,372,873 87	49,080 91	215,570 75
At 4 per cent interest	1,326,020 36	1,482,309 41	8,462,349 19	10,988,455 77
" 5 " "	39,105,464 06	38,842,604 18	41,450,757 78	41,680,908 37
" 6 " "	42,724,770 65	44,468,162 66	46,273,051 76	47,081,627 75
" 7 " "	2,878,200 00	3,373,200 00	.....	.....
Total debt	93,046,051 73	96,896,666 20	112,361,998 39	116,032,464 22
Total interest	4,851,710 70	4,974,279 93	5,188,641 90	5,153,852 98
Average rate of interest	5.21	5.13	4.62	4.44
ASSETS.				
Without interest	1,463,690 83	4,209,856 29	15,812,184 66	15,998,548 07
At varying rates	3,174,660 16	3,162,825 75	1,460,016 25	133,871 08
At 3 and 3½ per cent interest	.....	.....	2,000,000 00	4,883,089 49
At 4 per cent interest	.....	.....	2,768,234 70	2,076,176 03
" 5 " "	12,244,725 90	13,334,215 96	14,019,390 12	14,342,894 40
" 6 " "	434,333 47	432,633 46	442,853 46	437,313 46
Total assets	17,317,410 36	21,139,531 46	36,502,679 19	37,871,892 53
Total interest	699,890 77	753,490 00	929,268 20	1,000,685 41
Average rate of interest	4.04	3.57	2.53	2.64

	1867.	1868.	1869.	1870.
	$ cts.	$ cts.	$ cts.	$ cts.
Total debt	93,046,051 73	96,896,666 20	112,361,998 39	116,032,464 22
Total assets	17,317,410 36	21,139,531 46	36,502,679 19	37,871,892 53
Net debt	75,728,641 37	75,757,134 74	75,859,319 20	78,160,571 69
Total interest on debt	4,851,710 70	4,974,279 93	5,188,641 90	5,153,852 98
Total interest on assets	699,890 77	753,490 00	929,268 20	1,000,685 41
Net interest	4,151,819 93	4,220,789 93	4,259,373 70	4,153,167 57
Average rate	5.48	5.57	5.63	5.31

CAPITAL EXPENDITURE.

	1867-8.	1868-9	1869-70	TOTAL.
Public Works.....	537,701 68	385,407 70	269,935 06	1,193,044 44
Less Sales and Stores..	13,575 00	41,166 71	9,000 00	63,741 71
	524,126 68	344,240 99	260,935 06	1,129,302 73
Intercolonial Railway....	50,081 64	169,782 12	1,567,586 40	1,787,450 16
Acquisition and opening of North West.....	....	.....	1,822,099 85	1,822,099 85
	574,208 32	514,023 11	3,650,621 31	4,738,852 74
Increase of debt.....	28,493 37	102,184 46	2,301,252 49	2,431,930 32
Capital Expenditure from Income.....	545,714 95	411,838 65	1,349,368 82	2,306,922 42

III.

STATEMENT of the change in the balance of Consolidated Fund from July 1, 1867 to July 1, 1870.

Consolidated Fund Dr. to sundry liabilities assumed from the several Provinces July 1, 1867 (*vide* P.A. 1869 p. 8).....		$79,229,732 70
do Cr. by sundry assets assumed. .....$	73,734,962 03	
Less Great Western Interest account reversed...	1,062,032 37	—$72,672,929 66
Balance as July 1, 1867.....		$ 6,556,803 04
Balance July 1, 1870.....		4,197,198 80
		$ 2,359,604 24

COMPARISON OF INTE[illegible]PUTED AND INTEREST PAID, 1868-9.

	Computed.	Paid.
		$ cts.
Imperial Guaranteed 6 m		13,626 67
Do Intercolonial 9 m	292,000 00	219,000 00
Intercolonial 9 m	121,666 66	91,250 00
Consolidated Canadian Loan	1,344,956 35	1,347,446 20
Do Stock	232,874 43	230,262 24
Canada 5 per cent	13,383 33	13,383 33
Do 6 per cent	1,496,558 40	1,496,704 40
Nova Scotia	267,618 00	267,910 00
New Brunswick	293,197 20	294,803 20
Total London	4,062,254 37	3,974,386 04
Canada 5 p. c	9,646 25	9,636 24
do. 6 p. c	73,656 60	73,688 86
do. 7 p. c		30,562 00
Nova Scotia	88,914 00	88,914 00
New Brunswick	11,814 00	11,814 00
Convertible to Stock	34,680 00	25,020 22
Stock	196,371 66	148,464 50
Savings Bank, Canada	37,804 56	21,094 72
Savings Bank, Nova Scotia	26,349 36	26,303 82
Savings Bank, New Brunswick	45,385 00	43,219 38
Seigneurs and Townships	232,188 60	232,188 60
Indians and Widows	143,509 03	145,771 71
Other Trust Funds	192,155 95	195,267 25
Province of Nova Scotia	32,685 40	55,523 12
London Agents	1,227 04	5,374 28
Bank of Montreal		70,575 35
Total	5,188,641 82	5,157,804 09
Total on Investments	929,268 10	838,908 24
	4,259,373 72	4,318,895 8[illegible]

	Computed.	Credited.
	$ cts.	$ cts.
[illegible]iada debt	524,488 46	524,887 04
N. B. debt	15,991 13	
Sinking Funds	99,464 77	81,287 76
N. B. Bonds	5,022 36	4,905 60
Northern R. R.	14,600 00	14,600 00
Cobourg Bonds	1,272 60	1,908 88
Toronto Bonds	768 18	1,358 24
Montreal Turnpike Bonds	4,032 00	6,048 00
Montreal Harbor do	10,563 33	15,845 00
Port Hope do	1,179 38	1,769 03
Hamilton Coupons	839 06	
G. T. R. Postal Bonds	3,041 66	9,842 50
G. W. Bonds	110,729 36	55,364 69
India Bonds	34,066 66	34,066 67
Bank of Montreal	60,000 00	43,063 58
Canada 5 p. c	14,376 66	7,840 01
do 6 p. c	876 00	
London Agents	27,956 49	36,121 24
Total	929,268 10	838,908 24

Interest on Debt computed	$5,188,641 82	
Do paid	5,157,804 09	
		$30,837 73
Interest on Assets computed	929,268 10	
Do credited	838,908 24	
		90,359 86
Difference on Net Debt		59,522 13

The amounts paid and received are thus charged :

Interest on Public Debt	4,907,013 71
Ontario and Quebec Subsidy Accounts	195,267 25
Province of Nova Scotia Debt	55,523 12
	5,157,804 08

Interest on Investments	$314,021 20
O. & Q. Subsidy Account	524,887 04
	$838,908 24